



## **Request for City Council Committee Action From the Department of the City Coordinator**

Date February 18, 2002

To: Ways & Means/Budget Committee

Prepared or Submitted by: Kim W. Havey, Director, Minneapolis Empowerment Zone

Approved by: John Moir, City Coordinator

**Subject: Empowerment Zone Loan Fund**

**Presenters in Committee: Kim Havey and Sarah Moffitt, Empowerment Zone Office**

**Recommendation:** Approval of RFP process, The Minneapolis Empowerment Zone Small Business Initiative Loan Fund.

**Financial Impact** (Check those that apply)

☒ No financial impact or Action is within current budget.

☐ Action requires an appropriation increase to the Capital Budget

☐ Action requires an appropriation increase to the Operating Budget

☐ Action provides increased revenue for appropriation increase

☐ Action requires use of contingency or reserves

☐ Other financial impact (Explain):

☐ Request provided to the Budget Office when provided to the Committee Coordinator

### **Background/Supporting Information**

The goal of the Empowerment Zone's Small Business Initiative Loan Fund is to make available funds and resources to small businesses within the boundaries of the Empowerment Zone. The intention is to address the following needs: 1) small businesses owned by the minority populations that comprise the Empowerment Zone or business owners who have a difficulty getting loans or investments from traditional lenders for their viable ideas because they lack credit or assets; and 2) start-up ideas or businesses that want to maintain or expand but don't have the know-how and need Technical Assistance to achieve these goals. Examples of EZ's target recipients may be a neighborhood grocery store looking to expand, a neighbor who wants to start up a small landscaping business but has limited funds for equipment, a local tailor looking to move from their home to a commercial area for more business, or a home-based daycare provider.

The EZ has created this fund to encourage community lenders (who will be referred to throughout the RFP as intermediaries) to lend to EZ target recipients. These intermediaries may be non-profits, banks, or neighborhood or community development agencies who invest in these higher-risk businesses. The EZ is looking for these experienced intermediaries to administer the loans.

Intermediaries will apply to the EZ for loan funds. These funds are then lent to businesses that apply to these intermediaries. Loan funds can be used for current capital needs or slightly longer-term equity needs to leverage other investors.

### **FUNDS AVAILABLE**

Three types of funds are available:

1. \$100,000 for Technical Assistance Grants
2. \$700,000 for Capital Loans
3. \$200,000 for Deferred Loans

### **TERMS**

Applicants can request funds from all of the funding pools, or one particular pool. However, deferred loan applications should include a capital loan fund request.

#### *Technical Assistance:*

- Funds will be awarded as a grant.
- There is no funding request limit. However, applicants, if awarded, are not guaranteed full requested amount. (Applicants must tell us their cost/ per hour of provided technical assistance.)
- No more than 15% of TA funds awarded may be used for organization's administrative costs.

#### *Capital Loan Funds:*

- There is no funding request limit. However, applicants, if awarded, are not guaranteed full requested amount.
- Intermediaries will be issued funds with a ten-year term at a 4% interest rate.
- Awardees have two years from time of award to loan funds to small and start-up businesses within the eligible area (as noted in RFP).
- The intermediary is not required to repay principal or interest for the first two years, as they loan the funds to EZ businesses. For the remaining eight years within the loan term, quarterly principal and interest payments are due to the EZ.
- The interest rate and term of loan the intermediary established for the small or start-up business is decided upon by the intermediary, however, the interest rate cannot exceed 10%.
- Loans to businesses by the intermediary cannot exceed a total \$50,000, with no more than 50% of the loan comprised of EZ funds. (\$25,000 EZ funds, \$25,000 other sources). At anytime, the intermediary may pay down the loan to the EZ.
- Should the business be unable to make their payments, the EZ and other funding sources share is reimbursed on a pro rata basis. There is a \$1 for \$1 loss reimbursement due to the EZ from the intermediary.
- Intermediaries are required to match requested dollars 1 to 1 at the time of application to the EZ.

#### *Deferred Loan Fund:*

- Requests for deferred loans are to be combined with capital loan fund request. The ratio of capital loan funds to deferred loan funds requests can be no higher than 3.5:1. (Please note, applicant may apply for capital loan funds without requesting deferred loan funds).
- Deferred loans made by intermediaries to start-up or small businesses may not exceed \$20,000.
- Deferred loans will have a five-year term. At the end of the five years, the intermediary will be required to pay back, in full, the deferred loan, to the EZ.
- No interest is charged on the deferred loan.
- At anytime during the five years, the intermediary can pay down the deferred loan. The intermediary sets payment terms for the business.
- Deferred loans can be used to provide alternative loan programs, for example, no-interest loans to members of the Islamic community.

The PRC and Minneapolis Empowerment Zone Governance Board are in support of The Minneapolis Empowerment Zone Small Business Initiative Loan Fund RFP process.